

ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

325

COMMISSIONERS

2006 NOV -6 P 4: 18

JEFF HATCH-MILLER, Chairman

WILLIAM A. MUNDELL

MIKE GLEASON

KRISTIN K. MAYES

BARRY WONG

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR A
HEARING TO DETERMINE THE FAIR VALUE
OF THE UTILITY PROPERTY OF THE
COMPANY FOR RATEMAKING PURPOSES, TO
FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN, AND TO AMEND DECISION NO.
67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE
FREQUENCY OF UNPLANNED OUTAGES
DURING 2005 AT PALO VERDE NUCLEAR
GENERATING STATION, THE CAUSES OF THE
OUTAGES, THE PROCUREMENT OF
REPLACEMENT POWER AND THE IMPACT OF
THE OUTAGES ON ARIZONA PUBLIC
SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL
AND PURCHASED POWER PRACTICES AND
COSTS OF THE ARIZONA PUBLIC SERVICE
COMPANY.

DOCKET NO. E-01345A-05-0827

STAFF'S NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby provides notice of filing the Testimony
Summary of Michael L. Brosch in the above-referenced matter.

RESPECTFULLY SUBMITTED this 6th day of November, 2006.

Arizona Corporation Commission

DOCKETED

NOV -6 2006

DOCKETED BY

NR

Christopher C. Kempley, Chief Counsel
Janet Wagner, Senior Staff Counsel
Charles Hains, Attorney
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

1 Original and 17 copies of the foregoing filed
2 this 6th day of November, 2006, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, AZ 85007

7 Copy of the foregoing mailed this
8 6th day of November, 2006 to:

9 Deborah R. Scott
10 Kimberly A. Grouse
11 SNELL & WILMER
12 One Arizona Center
13 400 East Van Buren Street
14 Phoenix, AZ 85004-2202

15 Thomas L. Mumaw
16 Karilee S. Ramaley
17 PINNACLE WEST CAPITAL
18 CORPORATION
19 Post Office Box 53999, MS 8695
20 Phoenix, AZ 85072-3999

21 C. Webb Crockett
22 Patrick J. Black
23 FENNEMORE CRAIG, P.C.
24 3003 North Central Avenue, Suite 2600
25 Phoenix, AZ 85012-2913

26 Michelle Livengood
27 UniSource Energy Services
28 One South Church Street, Suite 200
Tucson, AZ 85702

Donna M. Bronski
Deputy City Attorney
City Attorney's Office
3939 North Drinkwater Boulevard
Scottsdale, AZ 85251

George Bien-Willner
3641 North 39th Avenue
Phoenix, AZ 85014

Michael W. Patten
J. Matthew Derstine
Laura E. Sixkiller
ROSHKA DEWULF & PATTEN, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, AZ 85004

Michael L. Kurtz
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Scott S. Wakefield
RUCO
1110 West Washington Street, Suite 220
Phoenix, AZ 85007

Lawrence V. Robertson, Jr.
Post Office Box 1448
Tubac, AZ 85646

Bill Murphy
Murphy Consulting
5401 North 25th Street
Phoenix, AZ 85016

Andrew W. Bettwy
Karen S. Haller
Assistants General Counsel
Legal Affairs Department
5241 Spring Mountain Road
Las Vegas, NV 89150

1	Amanda Ormond	Dan Austin
2	The Ormond Group LLC	Comverge, Inc.
3	Southwest Representative	6509 West Frye Road, Suite 4
4	Interwest Energy Alliance	Chandler, AZ 85226
5	7650 South McClintock, Suite 103-282	Timothy M. Hogan
6	Tempe, AZ 85284	Arizona Center for Law in the Public Interest
7	Joseph Knauer, President	202 East McDowell Road, Suite 153
8	Jewish Community of Sedona	Phoenix, AZ 85004
9	and the Verde Valley	Jay I. Moyes
10	100 Meadowlark Drive	Moyes Storey Ltd.
11	Post Office Box 10242	1850 North Central Avenue, Suite 110
12	Sedona, AZ 86339-8242	Phoenix, AZ 85004
13	David C. Kennedy, Esq.	Kenneth R. Saline, P.E.
14	818 East Osborn Road, Suite 103	K.R. Saline & Assoc., PLC
15	Phoenix, AZ 85014	160 North Pasadena, Suite 101
16	S. David Childers, Esq.	Mesa, AZ 85201
17	LOW & CHILDERS	Robert W. Geake
18	2999 North 44 th Street, Suite 250	Vice President and General Counsel
19	Phoenix, AZ 85018	Arizona Water Company
20	Tracy Spoon	Post Office Box 29006
21	Sun City Taxpayers Association	Phoenix, AZ 85038-9006
22	12630 North 103 rd Avenue, Suite 144	Lieutenant Colonel Karen S. White
23	Sun City, AZ 85351	Chief, Air Force Utility Litigation Team
24	Tammie Woody	AFLSA/JACL-ULT
25	10825 West Laurie Lane	139 Barnes Drive
26	Peoria, AZ 85345	Tyndall AFB, FL 32403
27	Douglas V. Fant	Greg Patterson
28	Law Offices of Douglas V. Fant	Arizona Competitive Power Alliance
	3655 West Anthem Drive, Suite A-109	916 West Adams Street, Suite 3
	Anthem, AZ 85086	Phoenix, AZ 85007
	Walter W. Meek, President	Jim Nelson
	Arizona Utility Investors Association	12621 North 17 th Place
	2100 North Central Avenue, Suite 210	Phoenix, AZ 85022
	Phoenix, AZ 85004	Barbara Klemstine
	Sein Seitz, President	Brian Brumfield
	Arizona Solar Energy Industries Association	Arizona Public Service
	3008 North Civic Center Plaza	Post Office Box 53999, MS 9708
	Scottsdale, AZ 85251	Phoenix, AZ 85072-3999

1	Jon Poston
2	AARP Electric Rate Project
3	6733 East Dale Lane
4	Cave Creek, AZ 85331
5	Coralette Hannon
6	AARP Government Relations & Advocacy
7	6705 Reedy Creek Road
8	Charlotte, NC 28215
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	

**EXECUTIVE SUMMARY OF TESTIMONY
DIRECT TESTIMONY OF MICHAEL L. BROSCHE**

**ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-05-0816**

My Direct Testimony on behalf of Commission Staff addresses the cost of service allocation study that is sponsored by APS witness David Rumolo. I explain that cost of service allocation studies are needed to segregate the retail portion of APS rate base and operating income that is subject to the jurisdiction of the Arizona Corporation Commission from that which is under the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). Then, the ACC retail jurisdictional rate base and adjusted test year operating income amounts are further allocated among retail customer classes using class cost of service allocations, so as to provide information reflective of the estimated costs to serve each customer class, as well as unbundled functional and unit costs for use as a guide in the design of tariff rate schedules.

In this Docket, I have reviewed and accepted as reasonable all but one of the cost allocation procedures employed by Mr. Rumolo. My only objection to the Company's approach is the same objection raised by Staff and RUCO in the Company's last Arizona rate case; the Company's use of a 4 coincident peak ("4CP") method to allocate electric production facilities costs based solely upon summer peak demands. I explain in testimony that generating facility costs are not incurred solely to meet summer peak day demands as implied by the 4CP method, but are also optimized to economically produce energy throughout the balance of the year. APS generating capacity costs are not caused only by the need to meet summer peak demands. If this were the case, the Company could have built its entire portfolio of generation consisting of relatively inexpensive gas-fired peaking capacity and avoided the considerable additional costs it has incurred to own and operate nuclear and coal-fired base-load generating units. It is necessary and appropriate to employ an energy weighted production capacity allocation methodology to recognize that a mix of peaking and base-load generating facilities are utilized by APS to cost effectively meet overall 4CP peak hour demands as well as average demands that must be served the other 8,756 hours of the year.

I recommend application of an energy-weighted allocation factor for electric production facilities, in place of the Company's straight 4CP method, using a 4CP peak and average allocation methodology. I have employed the Company's cost allocation model to apply this modified cost allocation to the adjusted rate base and operating income levels sponsored by Staff witness James R. Dittmer, using the Staff's recommended 4CP peak and average method. For illustrative purposes, I have also allocated the Staff's rate base and operating income using the APS-proposed 4CP methodology. The results of these allocations are presented in Attachments MLB-3 and MLB-4 to my Direct Testimony, respectively.